

Avondale School District

Auburn Hills, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2008

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Avondale School District
Members of the Board of Education and Administration
June 30, 2008

Cynthia Tischer	President
Cyndi Pettit	Vice President
Tammy Muczynski	Secretary
Kenneth Hedrick	Treasurer
Kessie Kaltsounis	Trustee
Debra LaMothe	Trustee
Stephen Sucher	Trustee

Administration

George Heitsch - Superintendent

Romaneir Polley – Director of Business Services



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Independent Auditors' Report

To the Board of Education
Avondale School District
Auburn Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Avondale School District as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Avondale School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Avondale School District as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2008, on our consideration of the Avondale School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Avondale School District's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
October 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Avondale School District
Management's Discussion and Analysis
June 30, 2008

This section of the Avondale School District's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Avondale School District financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund and the 2003 Building and Site Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund

Other Supplemental Information

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Avondale School District
Management's Discussion and Analysis
June 30, 2008

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community education, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Avondale School District
Management's Discussion and Analysis
June 30, 2008

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2008 and 2007.

TABLE 1

	<u>Governmental Activities</u>	
	(in millions)	
	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 15.2	\$ 10.5
Capital assets	<u>109.5</u>	<u>110.8</u>
Total assets	<u>124.7</u>	<u>121.3</u>
Liabilities		
Current liabilities	13.9	7.4
Long-term liabilities	<u>105.3</u>	<u>112.2</u>
Total liabilities	119.2	119.6
Net assets		
Invested in capital assets - net of related debt	15.6	10.8
Restricted	3.0	1.9
Unrestricted (deficit)	<u>(13.1)</u>	<u>(11.0)</u>
Total net assets	<u>\$ 5.5</u>	<u>\$ 1.7</u>

The School District's net assets were \$5.5 million and \$1.7 million at June 30, 2008 and 2007, respectively. Capital assets, net of related debt totaling \$15.6 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets is an unrestricted deficit and totals (\$13.1 million).

Avondale School District
Management's Discussion and Analysis
June 30, 2008

The (\$13.1 million) in unrestricted net assets (deficit) of governmental activities represents the accumulated results of all past years' operations. A positive unrestricted net assets balance would enable the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The School District's unrestricted net asset balance is currently in deficit position, which signals we will experience difficulties with cash flow. There is also no reserve available to handle large unexpected uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal years 2008 and 2007. (see Table 2).

TABLE 2

	(in millions)	
	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue		
Charges for services	\$ 2.2	\$ 2.1
Operating grants and contributions	4.8	4.6
General revenue		
Property taxes	23.6	22.7
State aid - unrestricted	20.6	20.5
Other	<u>0.9</u>	<u>0.8</u>
Total revenue	<u>52.1</u>	<u>50.7</u>
Functions/Program Expenses		
Instruction	26.7	26.5
Supporting services	13.8	14.4
Community services	1.2	1.3
Food services	0.9	0.9
Athletics	0.6	0.6
Interest on long-term debt	<u>5.1</u>	<u>4.7</u>
Total functions/program expenses	<u>48.3</u>	<u>48.4</u>
Increase in net assets	<u>\$ 3.8</u>	<u>\$ 2.3</u>

Avondale School District
Management's Discussion and Analysis
June 30, 2008

As reported in the statement of activities, the cost of all of our governmental activities this year was \$48.3 million. Certain activities were partially funded from those who benefited from the programs (\$2.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$23.6 million in taxes, \$20.6 million in state foundation allowance, and \$.9 million with our other revenues, i.e., interest income and general entitlements.

The School District experienced an increase in the net assets of \$3.8 million, which increased total net assets from \$1.7 million to \$5.5 million. This change of net assets is due primarily to a decrease in long-term liabilities due to less borrowing from the School Bond Loan Fund to repay bonded debt.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1.9 million, which is a decrease of \$1.7 million from last year. The primary reasons for the decrease are as follows:

- In the General Fund, our principal operating fund, the fund balance decreased \$.7 million to approximately a deficit of \$1.4 million. The change is mainly due to current program expenditures exceeding projected revenue. The purpose of the General Fund's fund balance is to fund costs related to allowable school operations.
- In the Building and Site Fund, the fund balance decreased \$.6 million to approximately \$1.5 million due to the ongoing construction and renovation projects funded by the 2003 bond issue.

Our Special Revenue Funds (Food Services, Athletics, and Community Services Funds) had a combined increase in fund equity of approximately \$90,000. This is due primarily to better management of the funds and expansion of services with Food Services and Community Services posting modest operating surpluses.

Avondale School District
Management's Discussion and Analysis
June 30, 2008

Combined, the Debt Service Funds showed a fund balance decrease of approximately \$.8 million. A decrease in this fund is attributed to paying debt service obligations and decrease borrowing from the State School Loan Bond Fund. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The Capital Projects - Sinking Fund's fund balance increased by approximately \$.3 million due to money set aside for payment of capital projects during the upcoming year.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were revisions made to the 2007-2008 General Fund original budget. Budgeted revenues were increased approximately \$ 1.3 million due mainly to the increase in local source allocations of \$.3 million, and an increase in state sources of \$.6 million. The variance from budget to actual for revenues was less than 1.0 percent.

Budgeted expenditures were decreased approximately \$.2 million primarily due to staff reductions. The variance from budget to actual for expenditures was approximately 1.0 percent.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the School District had \$109.5 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of (\$1.3 million).

This year's addition of approximately (\$1.6 million) is primarily comprised of construction in progress, construction projects that was completed in 2007-08, and accumulated depreciation of capital assets.

We present more detailed information about our capital assets in the notes to the financial statements.

Avondale School District
Management's Discussion and Analysis
June 30, 2008

Debt

At the end of this year, the School District had \$82 million in bonds outstanding versus \$88.8 million in the previous year (a change of 8 percent). The reduction is due to paying down the principal balance on the outstanding bonds. Those bonds consisted of the following:

1988 Building and Site Capital Appreciation Bonds	\$ 1,862,752
1999 Refunding Bonds	19,655,000
2001 Refunding Bonds	4,670,000
2002 Refunding Bonds	5,290,000
2003 School Building and Site Bonds	14,895,000
2005 Refunding Bonds	7,695,000
2006 Refunding Bonds	9,735,000
2007 Refunding Bonds	18,240,000

The School District's general obligation bonds are qualified for participation by the State in the Michigan School Bonds Qualification and Loan Program. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries (\$250 million). If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$82 million is significantly below this \$250 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, early separation agreements, and accreted interest on capital appreciation bonds. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's 2008-2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008-2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2008-2009 budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 63 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations.

Avondale School District
Management's Discussion and Analysis
June 30, 2008

Based on the initial fall student count, the blended count to formulate the 2008-2009 budget is on target. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations. At this time, we do not anticipate the need to amend the budget based on student count variances.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. It is anticipated with the 2009 budget adoption will include a proposed \$56 per pupil increase in the foundation allowance. The \$56 increase is certainly good news, but is not even adequate to fund increases in operating costs or other contractual increases. It is evident that substantial budget reductions are needed for the foreseeable future if the School District hopes to maintain financial stability and independence. Inevitably these budget reductions will impact the instructional programs and services that are presently offered.

If the State's revenue budget falls short of projections, the legislature must then revise the appropriation or proration of state aid will occur. We did not receive a proration in the last fiscal year, but it is not known at this time whether a mid-year proration will occur in 2008-2009 and what the impact will be on revenues.

The capital improvement projects funded by the 2003 bonds for the most part concluded in 2005-2006. Some of the capital improvement projects continued in 2007-2008 school year and there still remain a couple of uncompleted projects through out the District. A review is currently underway to identify additional projects that might be funded out of any remaining proceeds from the 2003 bond issue.

Contacting the School District's Administration

This report is designed to give an overview of the financial condition of the Avondale School District. If there are additional questions or information needed, please contact the business office at (248) 537-6000.

BASIC FINANCIAL STATEMENTS

Avondale School District
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash	\$ 396,819
Taxes receivable	478,199
Accounts receivable	136,062
Due from other governmental units	4,346,374
Inventory	16,524
Investments	9,630,708
Other assets	203,799
Capital assets not being depreciated	3,449,299
Capital assets - net of accumulated depreciation	<u>106,013,057</u>
Total assets	<u>124,670,841</u>
 Liabilities	
Accounts payable	2,540,266
State aid anticipation note payable	5,000,000
Accrued expenditures	779,368
Accrued salaries payable	4,201,571
Deferred revenue	1,373,275
Noncurrent liabilities	
Due within one year	7,310,112
Due in more than one year	<u>97,943,941</u>
Total liabilities	<u>119,148,533</u>
 Net assets	
Invested in capital assets, net of related debt	15,595,629
Restricted for:	
Debt service	502,137
Capital projects	2,547,873
Unrestricted (deficit)	<u>(13,123,331)</u>
Total net assets	<u>\$ 5,522,308</u>

See Accompanying Notes to Financial Statements

Avondale School District
Statement of Activities
For the Year Ended June 30, 2008

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Governmental activities				
Instruction	\$ 26,718,485	\$ 198,254	\$ 2,784,019	\$ -
Supporting services	13,794,637	-	1,655,268	-
Food services	920,764	562,513	320,539	-
Athletic activities	601,728	215,671	10,000	-
Community services	1,211,660	1,204,318	-	-
Interest on long-term debt	5,112,759	-	-	-
Total governmental activities	\$ 48,360,033	\$ 2,180,756	\$ 4,769,826	\$ -
General revenues				
Property taxes, levied for general purposes				12,491,962
Property taxes, levied for debt service				10,282,061
Property taxes, levied for sinking fund				862,398
State aid - unrestricted				20,638,623
Interest and investment earnings				447,582
Gain on sale of capital assets				64,681
Other				404,777
Total general revenues				45,192,084
Change in net assets				3,782,633
Net assets - beginning				1,739,675
Net assets - ending				\$ 5,522,308

See Accompanying Notes to Financial Statements

Avondale School District
Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	2003 Building and Site Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 11,200	\$ 191,929	\$ 193,690	\$ 396,819
Taxes receivable	293,452	-	173,466	466,918
Accounts receivable	135,070	-	992	136,062
Due from other funds	34,124	-	58,669	92,793
Due from other governmental units	4,346,374	-	-	4,346,374
Inventory	-	-	16,524	16,524
Investments	<u>6,717,751</u>	<u>1,459,669</u>	<u>1,453,288</u>	<u>9,630,708</u>
Total assets	<u>\$ 11,537,971</u>	<u>\$ 1,651,598</u>	<u>\$ 1,896,629</u>	<u>\$ 15,086,198</u>
Liabilities and fund balance				
Liabilities				
Accounts payable	\$ 2,348,150	\$ 128,300	\$ 63,816	\$ 2,540,266
State aid anticipation note payable	5,000,000	-	-	5,000,000
Due to other funds	48,669	-	32,843	81,512
Accrued salaries payable	4,177,913	-	23,658	4,201,571
Deferred revenue	<u>1,356,823</u>	<u>-</u>	<u>16,452</u>	<u>1,373,275</u>
Total liabilities	<u>12,931,555</u>	<u>128,300</u>	<u>136,769</u>	<u>13,196,624</u>

See Accompanying Notes to Financial Statements

Avondale School District
Governmental Funds
Balance Sheet
June 30, 2008

	<u>General Fund</u>	<u>2003 Building and Site Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance				
Reserved for inventory	\$ -	\$ -	\$ 16,524	\$ 16,524
Reserved for debt service	-	-	502,137	502,137
Reserved for capital projects	-	1,523,298	1,024,575	2,547,873
Other undesignated (deficit)	<u>(1,393,584)</u>	<u>-</u>	<u>216,624</u>	<u>(1,176,960)</u>
Total fund balance (deficit)	<u>(1,393,584)</u>	<u>1,523,298</u>	<u>1,759,860</u>	<u>1,889,574</u>
Total liabilities and fund balance	<u><u>\$ 11,537,971</u></u>	<u><u>\$ 1,651,598</u></u>	<u><u>\$ 1,896,629</u></u>	<u><u>\$ 15,086,198</u></u>

See Accompanying Notes to Financial Statements

Avondale School District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2008

Total fund balances for governmental funds	\$ 1,889,574
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	3,449,299
Capital assets - net of accumulated depreciation	106,013,057
Other long-term assets are not deferred in the governmental funds.	203,799
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(779,368)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(71,994)
Employee severance pay	(2,568,000)
Retirement incentives	(463,722)
Bonds payable	(81,813,311)
Capital lease payable	(158,737)
Accrued interest	(1,527,811)
School bond loan payable	(12,098,478)
Other loans payable and liabilities	<u>(6,552,000)</u>
Net assets of governmental activities	<u>\$ 5,522,308</u>

Avondale School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	General Fund	2003 Building and Site Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 13,424,880	\$ 68,686	\$ 13,185,970	\$ 26,679,536
State sources	22,438,087	-	34,636	22,472,723
Federal sources	845,350	-	285,903	1,131,253
Interdistrict sources	1,794,473	-	-	1,794,473
	<u>38,502,790</u>	<u>68,686</u>	<u>13,506,509</u>	<u>52,077,985</u>
Total revenues				
Expenditures				
Current				
Education				
Instruction	25,196,176	-	-	25,196,176
Supporting services	13,429,880	-	-	13,429,880
Food services	-	-	873,052	873,052
Athletic activities	-	-	570,547	570,547
Community services	-	-	1,148,872	1,148,872
Intergovernmental payments	176,611	-	-	176,611
Capital outlay	3,316	661,237	580,849	1,245,402
Debt service				
Principal	-	-	6,758,914	6,758,914
Interest and other expenditures	-	-	4,955,520	4,955,520
	<u>38,805,983</u>	<u>661,237</u>	<u>14,887,754</u>	<u>54,354,974</u>
Total expenditures				
Deficiency of revenues under expenditures	<u>(303,193)</u>	<u>(592,551)</u>	<u>(1,381,245)</u>	<u>(2,276,989)</u>

See Accompanying Notes to Financial Statements

Avondale School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>2003 Building and Site Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses)				
Proceeds from school bond loan fund	\$ -	\$ -	\$ 513,710	\$ 513,710
Proceeds from sale of capital assets	64,681	-	-	64,681
Transfers in	-	-	580,500	580,500
Transfers out	<u>(500,000)</u>	<u>-</u>	<u>(80,500)</u>	<u>(580,500)</u>
Total other financing sources (uses)	<u>(435,319)</u>	<u>-</u>	<u>1,013,710</u>	<u>578,391</u>
Net change in fund balance	(738,512)	(592,551)	(367,535)	(1,698,598)
Fund balance (deficit) - beginning	<u>(655,072)</u>	<u>2,115,849</u>	<u>2,127,395</u>	<u>3,588,172</u>
Fund balance (deficit) - ending	<u>\$ (1,393,584)</u>	<u>\$ 1,523,298</u>	<u>\$ 1,759,860</u>	<u>\$ 1,889,574</u>

See Accompanying Notes to Financial Statements

Avondale School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - Total governmental funds \$ (1,698,598)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(3,003,070)
Capital outlay	1,577,401

Expenses are recorded when incurred in the statement of activities.

Interest	(120,679)
Claims and judgments	19,808
Special termination benefits	758,723
Compensated absences	(7,551)

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issued	(513,710)
Repayments of long-term debt	6,758,914
Repayments of capital lease	47,955
Amortization of premiums	46,200
Amortization of gain on debt defeasance	(46,997)
Amortization bond issuance costs	(12,427)
Amortization of bond discount	(23,336)

Change in net assets of governmental activities \$ 3,782,633

See Accompanying Notes to Financial Statements

Avondale School District
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2008

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 8,376	\$ -
Investments	<u>-</u>	<u>434,168</u>
Total assets	<u>8,376</u>	<u>\$ 434,168</u>
Liabilities		
Due to other funds	-	\$ 11,281
Due to agency fund activities	<u>-</u>	<u>422,887</u>
Total liabilities	<u>-</u>	<u>\$ 434,168</u>
Net assets		
Reserved for scholarships and loans	<u>\$ 8,376</u>	

See Accompanying Notes to Financial Statements

Avondale School District
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2008

	<u>Private Purpose Trust Funds</u>
Additions	
Interest and investment earnings	\$ 274
Deductions	
	<u>-</u>
Change in net assets	274
Net assets - beginning	<u>8,102</u>
Net assets - ending	<u><u>\$ 8,376</u></u>

See Accompanying Notes to Financial Statements

Avondale School District
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Avondale School District (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Avondale School District
Notes to Financial Statements
June 30, 2008

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Capital Projects Fund – The 2003 Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service, Athletics and Community Services Fund. Operating deficits generated by these activities are generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Fund - The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically designated for acquiring new school sites, construction or repair of school buildings.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivables are shown net of an allowance for uncollectible amounts.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2008, the rates are as follows per \$1,000 of assessed value.

General Fund	
Homestead	1.2602
Nonhomestead	18.0000
Debt Service Funds	
Homestead	7.0000
Nonhomestead	7.0000
Sinking Fund	
Homestead	0.5936
Nonhomestead	0.5936

Avondale School District
Notes to Financial Statements
June 30, 2008

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Oakland and remitted to the School District by May 15.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings and additions, furniture, equipment, and buses and other vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	50 years
Furniture	20 years
Equipment	10 years
Buses and other vehicles	8 years

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation day balances. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Employee Severance Pay - A liability for employee severance pay is reported in the government-wide statements. The School District offers an employee severance pay to certain union groups. The estimate is calculated based on language obtained within the union contracts and a five year historical average of actual severance payouts. This estimate is calculated on an annual basis

Retirement Incentives - A liability for retirement incentives is reported in the government-wide statements. The voluntary severance incentive plan consists of early retirement incentive cash payments to be provided to employees. The early retirement incentives are to be provided to 20 employees over a four year period.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

Avondale School District

Notes to Financial Statements

June 30, 2008

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School District's financial statements.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause district-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the new rules will cause district-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending June 30, 2010.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

Avondale School District

Notes to Financial Statements

June 30, 2008

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ 20,154,267	\$ 20,533,313	\$ 379,046
Added needs	4,641,925	4,662,863	20,938
Pupil	2,813,543	2,941,630	128,087
School administration	2,426,507	2,579,538	153,031
Pupil transportation services	1,065,728	1,138,792	73,064
Capital outlay	-	3,316	3,316
Food Service Fund	846,992	873,398	26,406

The District adopted a deficit budget for the general fund. The adopted budget projected that expenditures would exceed the available resources at the end of the year by \$1,942,476. Actual results from fiscal year 2008 resulted in the general fund having a deficit fund balance of \$1,393,584. The District has filed a deficit elimination plan with the State of Michigan.

Compliance Bond Proceeds

The 2003 Building and Site Fund include capital project activities funded with bonds issued after May 1, 1994. The following is a summary of the revenue and expenditures in the 2003 Building and Site Fund from the inception of the funds through the current fiscal year:

2003 Building
and Site Fund

Revenues	\$ 60,386,300
Expenditures	58,912,276

Compliance Sinking Funds

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 396,819	\$ 8,376	\$ 405,195
Investments	9,630,708	434,168	10,064,876
	<u>\$ 10,027,527</u>	<u>\$ 442,544</u>	<u>\$ 10,470,071</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 5,227,757
Investments in securities, mutual funds, and similar vehicles	5,242,164
Petty cash and cash on hand	150
Total	<u>\$ 10,470,071</u>

Avondale School District
Notes to Financial Statements
June 30, 2008

As of year end, the District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Bank investment pool	\$ 372,330	Various	AAAm	Standard & Poor's
Repurchase Agreement Sweeps	<u>4,869,834</u>	Various	unrated	
	<u>\$ 5,242,164</u>			

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter term securities, liquid asset funds, money market mutual funds or similar investment pools and limiting the average maturity in accordance with the School Districts cash requirements.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

The school District has designated 5 banks for the deposit of its funds.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. As of year end, \$ 5,340,990 of the District's bank balance of \$ 5,840,990 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law. At June 30, 2008, the bank investment pool was uninsured and unregistered. The repurchase agreement sweeps were all collateralized.

Avondale School District

Notes to Financial Statements

June 30, 2008

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,080,692	\$ -	\$ -	\$ 3,080,692
Construction in progress	-	368,607	-	368,607
Total capital assets not being depreciated	3,080,692	368,607	-	3,449,299
Capital assets being depreciated				
Buildings and additions	124,492,507	1,166,274	-	125,658,781
Equipment and furniture	8,581,707	42,520	-	8,624,227
Buses and other vehicles	1,904,931	-	-	1,904,931
Total capital assets being depreciated	134,979,145	1,208,794	-	136,187,939
Less accumulated depreciation for				
Buildings and additions	20,886,505	2,263,852	-	23,150,357
Equipment and furniture	4,887,932	634,787	-	5,522,719
Buses and other vehicles	1,397,375	104,431	-	1,501,806
Total accumulated depreciation	27,171,812	3,003,070	-	30,174,882
Net capital assets being depreciated	107,807,333	(1,794,276)	-	106,013,057
Net capital assets	\$ 110,888,025	\$ (1,425,669)	\$ -	\$ 109,462,356

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 1,836,317
Support services	977,812
Food services	63,628
Athletic activities	41,582
Community services	83,731
Total governmental activities	<u>\$ 3,003,070</u>

Construction Contracts

As of year end, the School District had the following construction contracts in progress:

Project	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Sinking Fund	<u>\$ 886,000</u>	<u>\$ 872,595</u>	<u>\$ 13,405</u>

Contracts payable at year end represent actual contractor billings of \$ 29,630 and are recorded as a Sinking Fund liability. All projects are expected to be complete by the end of next fiscal year.

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 32,843
General Fund	Agency Fund	1,281
Nonmajor Governmental Funds	General Fund	48,669
Nonmajor Governmental Funds	Agency Fund	<u>10,000</u>
		<u>\$ 92,793</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Avondale School District
Notes to Financial Statements
June 30, 2008

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in			
Nonmajor governmental funds	<u>\$ 500,000</u>	<u>\$ 80,500</u>	<u>\$ 580,500</u>

These transfers were made to cover the costs of School District programs that were in excess of revenues generated from those activities in the Athletic Fund. In addition transfers were made between debt funds, which were subsequently paid back as cash flow permitted.

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
Property taxes	\$ 1,351,785
Other	<u>21,490</u>
Total	<u>\$ 1,373,275</u>

Deferred revenue is primarily due to the School District being overpaid taxes from TIFA dollars in previous years.

Note 7 - Leases

Capital Leases

The School District has a capital lease for copiers. The future minimum lease payments are as follows:

Year ending June 30,	
2009	\$ 56,995
2010	56,995
2011	<u>56,995</u>
Total minimum lease payments	170,985
Less amount representing interest	<u>12,248</u>
Present value of minimum lease payments	<u>\$ 158,737</u>

The assets acquired through capital leases are as follows:

Assets	
Machinery and equipment	\$ 252,364
Less accumulated depreciation	<u>100,946</u>
Total	<u>\$ 151,418</u>

Note 8 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	<u>\$ 20,000</u>	<u>\$ 5,000,000</u>	<u>\$ 20,000</u>	<u>\$ 5,000,000</u>

Avondale School District

Notes to Financial Statements

June 30, 2008

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 88,801,666	\$ -	\$ 6,758,914	\$ 82,042,752	\$ 6,708,037
Accreted interest	7,047,000	-	495,000	6,552,000	88,000
School Bond Loan Fund	6,655,134	-	-	6,655,134	-
School Loan Revolving Fund	4,929,634	513,710	-	5,443,344	-
Accrued interest	953,365	574,446	-	1,527,811	-
Capital lease	206,692	-	47,955	158,737	50,353
Compensated absences	64,443	7,551	-	71,994	-
Employee severance pay	2,863,000	-	295,000	2,568,000	-
Retirement incentives	927,445	-	463,723	463,722	463,722
Premium on bonds	970,200	-	46,200	924,000	-
Discount on bonds	(406,034)	-	(23,336)	(382,698)	-
Deferred amount on refunding	(817,740)	-	(46,997)	(770,743)	-
Deferred issuance costs	(216,220)	-	(12,421)	(203,799)	-
Total	<u>\$ 111,978,585</u>	<u>\$ 1,095,707</u>	<u>\$ 8,024,038</u>	<u>\$ 105,050,254</u>	<u>\$ 7,310,112</u>

General obligation bonds payable at year end, consists of the following:

1988 Building and Site Capital Appreciation Bonds- \$3,389,599 issued due in annual installments of \$282,084 to \$338,037 plus accumulated interest through May 1, 2014, interest at 7.70% to 7.75%	\$ 1,862,752
1999 Refunding Bonds- \$22,390,000 issued, due in annual installments of \$1,400,000 to \$1,415,000 through May 1, 2022, interest at 4.25% to 4.95%	19,655,000
2001 Refunding Bonds- \$10,850,000 issued, due in annual installments of \$695,000 to \$890,000 through May 1, 2014, interest at 4.10% to 4.60%	4,670,000
2002 Refunding Bonds- \$18,635,000 issued, due in annual installments of \$1,395,000 to \$1,995,000 through May 1, 2011, interest at 5.00%	5,290,000
2003 School Building and Site Bonds- \$57,645,000 issued, due in annual installments of \$1,950,000 to \$2,200,000 through May 1, 2015, interest at 4.00% to 5.00%	14,895,000
2005 Refunding Bonds- \$7,960,000 issued, due in annual installments of \$30,000 to \$2,435,000 through May 1, 2022, interest at 3.50% to 4.00%	7,695,000
2006 Refunding Bonds- \$9,835,000 issued, due in annual installments of \$105,000 to \$2,330,000 through May 1, 2019, interest at 3.50% to 4.00%	9,735,000
2007 Refunding Bonds- \$18,240,000 issued, due in annual installments of \$60,000 to \$2,500,000 through May 1, 2029, interest at 4.00% to 4.25%	18,240,000
Total general obligation bonded debt	<u>\$ 82,042,752</u>

Avondale School District
Notes to Financial Statements
June 30, 2008

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2009	\$ 6,708,037	\$ 4,706,171	\$ 11,414,208
2010	6,580,404	4,500,718	11,081,122
2011	6,279,984	4,287,329	10,567,313
2012	4,849,665	4,113,086	8,962,751
2013	4,807,578	3,998,744	8,806,322
2014-2018	20,037,084	11,086,373	31,123,457
2019-2023	18,100,000	5,255,727	23,355,727
2024-2028	12,275,000	2,063,537	14,338,537
2029	2,405,000	102,212	2,507,212
Total	<u>\$ 82,042,752</u>	<u>\$ 40,113,897</u>	<u>\$ 122,156,649</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$ 502,137 to pay this debt. Future debt and interest will be payable from future tax levies.

State School Bond Loan and School Loan Revolving Fund

The State School Bond Loan and School Loan Revolving Funds consist of borrowing agreements with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. Since 1988, the School District has issued bonds to renovate School District facilities. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage of 7 mills. Since the monies generated by the 7 mills are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow a total of \$12,098,478 to meet debt service requirements. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements and all necessary borrowing from the State School Bond Loan Fund and the School Loan Revolving

Fund. During the year, the School District borrowed \$513,710 and had an outstanding balance at year of \$12,098,478, from the State School Bond Loan Fund and School Loan Revolving Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Compensated Absences

Accrued compensated absences at year end, consists of \$71,994 of vacation hours earned and vested. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by vacation time earned for the year.

Employee Severance Pay

The School District's employee severance pay liability recorded on the government-wide financial statements at June 30, 2008 is \$2,568,000.

Retirement Incentives

The School District's voluntary severance incentive plan to employees is to be paid over a four year period through 2009. The balance as of year end was \$463,722.

Future payments are as follows:

Year Ending June 30,	
2009	<u>\$ 463,722</u>

Interest and other expenditures for the fiscal year in the Debt Service Funds totaled \$4,955,520.

Avondale School District
Notes to Financial Statements
June 30, 2008

Defeased Debt

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date is May 1, 2013. As of year end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

2003 Issue refunded	<u>\$ 33,000,000</u>
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Note 10 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and medical benefits provided to employees (excluding dental). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is self-insured for dental insurance. The School District has contracted with an independent administrator to process the dental claims and perform other administrative duties. According to the provisions of this program, the School District pays 82% of dental claims, up to \$2,500 annually, to each covered employee and the remaining 18% is paid by the employee. The School District evaluates the liability related to the dental claims at the end of each

fiscal year. The liability is calculated, based upon claims already incurred and reported and an estimate of incurred but not reported claims, as provided by the administrator.

No accrual has been recorded as of the end of the past three fiscal years, due to the insignificance of the estimated liability for dental claims. The year end claims liability and activity for the year is as follows:

Estimated liability at the beginning of the year	\$ -
Estimated claims incurred including changes in estimates	190,000
Claim payments	<u>(190,000)</u>
 Estimated liability end of year	 <u>\$ -</u>

The School District is self-insured under the Michigan Worker's Disability Compensation Act. Workers' compensation excess insurance has been retained for the aggregate claims exceeding \$500,000 for each annual policy period, to a maximum of \$1,000,000. This excess insurance also applies to individual occurrences exceeding \$500,000, with a statutory maximum for those individual occurrences. The expenditures for the year were \$28,884. There was no liability at year end.

Note 11 - Defined Benefit Pension Plan

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

Avondale School District

Notes to Financial Statements

June 30, 2008

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111.

Funding Policy

The School is required by State statute to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPERS funding for the three-year period beginning July 1, 2005 through June 30, 2008.

	2008	2007	2006
Funding percentage range	16.72-17.74%	16.34-17.74%	14.87-16.34%
School contributions	\$ 3,989,975	\$3,946,503	\$3,906,159
Portion of school contribution covering health, dental and vision benefits	39%	37%	40%

Trend Information

Ten-year historical trend information is presented in the September 30, 2007, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2006, the latest date for which information is

available, approximates \$ 49.1 billion and \$ 43.0 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPERS was less than 1% for the year ended September 30, 2007.

Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2007, statewide expenditures of \$ 654 million were recognized for post-retirement health care, dental and vision. This represented approximately 18% of the total expenditures of the Michigan Public School Employees Retirement System.

Note 12 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2008.

The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.

Avondale School District
Notes to Financial Statements
June 30, 2008

Note 13 - Subsequent Event

On June 16, 2008, the Board of Education passed a resolution authorizing the School District to borrow \$5,000,000 in state aid anticipation notes through the Michigan Municipal Bond Authority. The School District received the proceeds of this borrowing August 20, 2008. The interest rate was 1.70%.

REQUIRED SUPPLEMENTAL INFORMATION

Avondale School District
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 12,544,377	\$ 12,837,316	\$ 13,424,880	\$ 587,564
State sources	21,785,672	22,421,490	22,438,087	16,597
Federal sources	960,000	1,038,443	845,350	(193,093)
Interdistrict sources	1,607,605	1,807,100	1,794,473	(12,627)
 Total revenues	 36,897,654	 38,104,349	 38,502,790	 398,441
Expenditures				
Instruction				
Basic programs	20,406,206	20,154,267	20,533,313	379,046
Added needs	4,613,980	4,641,925	4,662,863	20,938
Supporting services				
Pupil	2,820,615	2,813,543	2,941,630	128,087
Instructional staff	1,332,579	1,346,327	1,129,519	(216,808)
General administration	794,851	794,551	719,111	(75,440)
School administration	2,433,577	2,426,507	2,579,538	153,031
Business	820,158	820,158	568,293	(251,865)
Operations and maintenance	3,986,657	3,923,695	3,653,859	(269,836)
Pupil transportation services	1,058,288	1,065,728	1,138,792	73,064
Central	766,498	774,019	699,138	(74,881)
Community services	1,025	4,925	-	(4,925)
Intergovernmental payments	165,500	190,789	176,611	(14,178)
Capital outlay	-	-	3,316	3,316
 Total expenditures	 39,199,934	 38,956,434	 38,805,983	 (150,451)
 Excess (deficiency) of revenues over expenditures	 (2,302,280)	 (852,085)	 (303,193)	 548,892

Avondale School District
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Other financing sources (uses)				
Proceeds from sale of capital assets	\$ -	\$ 64,681	\$ 64,681	\$ -
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(500,000)</u>	<u>(435,319)</u>	<u>(435,319)</u>	<u>-</u>
Net change in fund balance	(2,802,280)	(1,287,404)	(738,512)	548,892
Fund balance (deficit)- beginning	<u>(655,072)</u>	<u>(655,072)</u>	<u>(655,072)</u>	<u>-</u>
Fund balance (deficit) - ending	<u><u>\$ (3,457,352)</u></u>	<u><u>\$ (1,942,476)</u></u>	<u><u>\$ (1,393,584)</u></u>	<u><u>\$ 548,892</u></u>

OTHER SUPPLEMENTAL INFORMATION

Avondale School District
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2008

	Special Revenue Funds			Debt Service Funds								Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	Athletics	Community Services	1988 Debt Service Fund	1999 Debt Service Fund	2001 Debt Service Fund	2002 Debt Service Fund	2003 Debt Service Fund	2005 Debt Service Fund	2006 Debt Service Fund	2007 Debt Service Fund	Sinking Fund	
Assets													
Cash	\$ -	\$ 445	\$ 6,410	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 186,835	\$ 193,690
Taxes receivable	-	-	-	20,717	33,272	15,282	33,273	28,708	5,509	6,249	14,385	16,071	173,466
Accounts receivable	503	45	444	-	-	-	-	-	-	-	-	-	992
Due from other funds	43,556	10,197	-	-	-	-	-	-	-	-	-	4,916	58,669
Inventory	16,524	-	-	-	-	-	-	-	-	-	-	-	16,524
Investments	55,206	19,499	159,870	21,283	47,211	4,819	74,192	44,298	1,751	32,368	146,408	846,383	1,453,288
Total assets	\$ 115,789	\$ 30,186	\$ 166,724	\$ 42,000	\$ 80,483	\$ 20,101	\$ 107,465	\$ 73,006	\$ 7,260	\$ 38,617	\$ 160,793	\$ 1,054,205	\$ 1,896,629
Liabilities and fund balance													
Liabilities													
Accounts payable	\$ 28,455	\$ 880	\$ 4,851	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,630	\$ 63,816
Due to other funds	-	-	5,255	3,625	5,833	2,680	5,834	5,032	966	1,096	2,522	-	32,843
Accrued salaries payable	-	-	23,658	-	-	-	-	-	-	-	-	-	23,658
Deferred revenue	-	-	16,452	-	-	-	-	-	-	-	-	-	16,452
Total liabilities	28,455	880	50,216	3,625	5,833	2,680	5,834	5,032	966	1,096	2,522	29,630	136,769
Fund balance													
Reserved for inventory	16,524	-	-	-	-	-	-	-	-	-	-	-	16,524
Reserved for debt service	-	-	-	38,375	74,650	17,421	101,631	67,974	6,294	37,521	158,271	-	502,137
Reserved for capital projects	-	-	-	-	-	-	-	-	-	-	-	1,024,575	1,024,575
Other undesignated	70,810	29,306	116,508	-	-	-	-	-	-	-	-	-	216,624
Total fund balance	87,334	29,306	116,508	38,375	74,650	17,421	101,631	67,974	6,294	37,521	158,271	1,024,575	1,759,860
Total liabilities and fund balance	\$ 115,789	\$ 30,186	\$ 166,724	\$ 42,000	\$ 80,483	\$ 20,101	\$ 107,465	\$ 73,006	\$ 7,260	\$ 38,617	\$ 160,793	\$ 1,054,205	\$ 1,896,629

Avondale School District
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	Special Revenue Funds			Debt Service Funds								Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	Athletics	Community Services	1988 Debt Service Fund	1999 Debt Service Fund	2001 Debt Service Fund	2002 Debt Service Fund	2003 Debt Service Fund	2005 Debt Service Fund	2006 Debt Service Fund	2007 Debt Service Fund	Sinking Fund	
Revenues													
Local sources	\$ 574,134	\$ 78,718	\$ 1,210,369	\$ 1,373,887	\$ 2,191,717	\$ 1,014,403	\$ 2,208,394	\$ 1,916,699	\$ 364,041	\$ 413,812	\$ 955,302	\$ 884,494	\$ 13,185,970
State sources	34,636	-	-	-	-	-	-	-	-	-	-	-	34,636
Federal sources	285,903	-	-	-	-	-	-	-	-	-	-	-	285,903
Total revenues	894,673	78,718	1,210,369	1,373,887	2,191,717	1,014,403	2,208,394	1,916,699	364,041	413,812	955,302	884,494	13,506,509
Expenditures													
Current													
Education													
Food services	873,052	-	-	-	-	-	-	-	-	-	-	-	873,052
Athletic activities	-	570,547	-	-	-	-	-	-	-	-	-	-	570,547
Community services	-	-	1,148,872	-	-	-	-	-	-	-	-	-	1,148,872
Capital outlay	346	-	-	-	-	-	-	-	-	-	-	580,503	580,849
Debt service													
Principal	-	-	-	353,914	1,400,000	890,000	2,065,000	1,950,000	100,000	-	-	-	6,758,914
Interest and other expenditures	-	-	-	1,156,361	976,563	238,458	347,350	693,525	310,231	388,165	844,867	-	4,955,520
Total expenditures	873,398	570,547	1,148,872	1,510,275	2,376,563	1,128,458	2,412,350	2,643,525	410,231	388,165	844,867	580,503	14,887,754
Excess (deficiency) of revenues over expenditures	21,275	(491,829)	61,497	(136,388)	(184,846)	(114,055)	(203,956)	(726,826)	(46,190)	25,647	110,435	303,991	(1,381,245)
Other financing sources (uses)													
Proceeds from school bond loan fund	-	-	-	73,282	179,315	-	128,897	132,216	-	-	-	-	513,710
Transfers in	-	500,000	-	-	-	50,000	-	-	30,500	-	-	-	580,500
Transfers out	-	-	-	-	-	-	-	-	-	(30,500)	(50,000)	-	(80,500)
Total other financing sources (uses)	-	500,000	-	73,282	179,315	50,000	128,897	132,216	30,500	(30,500)	(50,000)	-	1,013,710
Net change in fund balance	21,275	8,171	61,497	(63,106)	(5,531)	(64,055)	(75,059)	(594,610)	(15,690)	(4,853)	60,435	303,991	(367,535)
Fund balance - beginning	66,059	21,135	55,011	101,481	80,181	81,476	176,690	662,584	21,984	42,374	97,836	720,584	2,127,395
Fund balance - ending	\$ 87,334	\$ 29,306	\$ 116,508	\$ 38,375	\$ 74,650	\$ 17,421	\$ 101,631	\$ 67,974	\$ 6,294	\$ 37,521	\$ 158,271	\$ 1,024,575	\$ 1,759,860

Avondale School District
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2008

	2008	2007
Assets		
Cash	\$ 11,200	\$ 62,916
Taxes receivable	293,452	51,709
Accounts receivable	135,070	161,141
Due from other funds	34,124	41,034
Due from other governmental units	4,346,374	4,037,476
Investments	6,717,751	1,888,098
Prepaid items	-	50,646
Total assets	<u>\$ 11,537,971</u>	<u>\$ 6,293,020</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$ 2,348,150	\$ 1,097,725
State aid anticipation note payable	5,000,000	20,000
Due to other funds	48,669	559,094
Payroll deductions and withholdings	-	10,486
Accrued salaries payable	4,177,913	3,906,650
Deferred revenue	<u>1,356,823</u>	<u>1,354,137</u>
Total liabilities	<u>12,931,555</u>	<u>6,948,092</u>
Fund balance		
Other undesignated (deficit)	<u>(1,393,584)</u>	<u>(655,072)</u>
Total liabilities and fund balance	<u>\$ 11,537,971</u>	<u>\$ 6,293,020</u>

Avondale School District
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2008

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
1988 Building and Site Capital Appreciation Bonds					
2009	7.70	\$ -	\$ 1,231,963	\$ 338,037	\$ 1,570,000
2010	7.70	-	1,324,596	330,404	1,655,000
2011	7.75	-	1,405,016	314,984	1,720,000
2012	7.75	-	1,490,335	304,665	1,795,000
2013	7.75	-	1,567,422	292,578	1,860,000
2014	7.75	-	1,652,916	282,084	1,935,000
		<u>\$ -</u>	<u>\$ 8,672,248</u>	<u>\$ 1,862,752</u>	<u>\$ 10,535,000</u>
1999 Refunding Bonds					
2009	4.25	\$ 459,106	\$ 459,106	\$ 1,400,000	\$ 2,318,212
2010	4.30	429,356	429,356	1,400,000	2,258,712
2011	4.40	399,256	399,256	1,400,000	2,198,512
2012	4.50	368,456	368,456	1,400,000	2,136,912
2013	4.60	336,956	336,956	1,400,000	2,073,912
2014	4.70	304,756	304,756	1,400,000	2,009,512
2015	4.85	271,857	271,857	1,400,000	1,943,714
2016	4.90	237,906	237,906	1,400,000	1,875,812
2017	4.95	203,606	203,606	1,400,000	1,807,212
2018	4.95	168,956	168,956	1,400,000	1,737,912
2019	4.75	134,306	134,306	1,410,000	1,678,612
2020	4.75	100,819	100,819	1,415,000	1,616,638
2021	4.75	67,212	67,213	1,415,000	1,549,425
2022	4.75	33,607	33,607	1,415,000	1,482,214
		<u>\$ 3,516,155</u>	<u>\$ 3,516,156</u>	<u>\$ 19,655,000</u>	<u>\$ 26,687,311</u>

Avondale School District
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2008

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2001 Refunding Bonds					
2009	4.10	\$ 101,081	\$ 101,081	\$ 860,000	\$ 1,062,162
2010	4.20	83,451	83,451	830,000	996,902
2011	4.25	66,021	66,021	795,000	927,042
2012	4.40	49,128	49,128	765,000	863,256
2013	4.50	32,297	32,297	725,000	789,594
2014	4.60	15,985	15,985	695,000	726,970
		<u>\$ 347,963</u>	<u>\$ 347,963</u>	<u>\$ 4,670,000</u>	<u>\$ 5,365,926</u>
2002 Refunding Bonds					
2009	5.00	\$ 132,250	\$ 132,250	\$ 1,995,000	\$ 2,259,500
2010	5.00	82,375	82,375	1,900,000	2,064,750
2011	5.00	34,875	34,875	1,395,000	1,464,750
		<u>\$ 249,500</u>	<u>\$ 249,500</u>	<u>\$ 5,290,000</u>	<u>\$ 5,789,000</u>
2003 School Building and Site Bonds					
2009	5.00	\$ 317,400	\$ 317,400	\$ 1,950,000	\$ 2,584,800
2010	5.00	268,650	268,650	1,950,000	2,487,300
2011	4.00	219,900	219,900	2,195,000	2,634,800
2012	4.00	176,000	176,000	2,200,000	2,552,000
2013	4.00	132,000	132,000	2,200,000	2,464,000
2014	4.00	88,000	88,000	2,200,000	2,376,000
2015	4.00	44,000	44,000	2,200,000	2,288,000
		<u>\$ 1,245,950</u>	<u>\$ 1,245,950</u>	<u>\$ 14,895,000</u>	<u>\$ 17,386,900</u>

Avondale School District
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2008

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2005 Refunding Bonds					
2009	3.50	\$ 153,253	\$ 153,253	\$ -	\$ 306,506
2010	3.50	153,253	153,253	110,000	416,506
2011	3.50	151,328	151,328	-	302,656
2012	3.63	151,328	151,328	115,000	417,656
2013	3.75	149,244	149,244	-	298,488
2014	4.00	149,244	149,244	125,000	423,488
2015	4.00	146,900	146,900	-	293,800
2016	4.00	146,900	146,900	30,000	323,800
2017	4.00	146,300	146,300	30,000	322,600
2018	4.00	145,700	145,700	30,000	321,400
2019	4.00	145,100	145,100	35,000	325,200
2020	4.00	144,400	144,400	2,435,000	2,723,800
2021	4.00	95,700	95,700	2,405,000	2,596,400
2022	4.00	47,600	47,600	2,380,000	2,475,200
		<u>\$ 1,926,250</u>	<u>\$ 1,926,250</u>	<u>\$ 7,695,000</u>	<u>\$ 11,547,500</u>
2006 Refunding Bonds					
2009	3.50	\$ 193,970	\$ 193,970	\$ 105,000	\$ 492,940
2010	3.50	192,133	192,132	-	384,265
2011	3.50	192,133	192,132	115,000	499,265
2012	3.50	190,120	190,120	-	380,240
2013	3.70	190,120	190,120	120,000	500,240
2014	3.70	187,900	187,900	-	375,800
2015	4.00	187,900	187,900	130,000	505,800
2016	4.00	185,300	185,300	2,300,000	2,670,600
2017	4.00	139,300	139,300	2,330,000	2,608,600
2018	4.00	92,700	92,700	2,305,000	2,490,400
2019	4.00	46,600	46,600	2,330,000	2,423,200
		<u>\$ 1,798,176</u>	<u>\$ 1,798,174</u>	<u>\$ 9,735,000</u>	<u>\$ 13,331,350</u>

Avondale School District
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2008

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2007 Refunding Bonds					
2009	4.00	\$ 380,044	\$ 380,044	\$ 60,000	\$ 820,088
2010	4.00	378,843	378,844	60,000	817,687
2011	4.00	377,644	377,644	65,000	820,288
2012	4.00	376,343	376,344	65,000	817,687
2013	4.00	375,044	375,044	70,000	820,088
2014	4.00	373,643	373,644	70,000	817,287
2015	4.00	372,244	372,244	75,000	819,488
2016	4.00	370,743	370,744	75,000	816,487
2017	4.00	369,244	369,244	80,000	818,488
2018	4.00	367,643	367,644	80,000	815,287
2019	4.00	366,044	366,044	85,000	817,088
2020	4.00	364,343	364,344	90,000	818,687
2021	4.00	362,544	362,544	90,000	815,088
2022	4.00	360,743	360,744	95,000	816,487
2023	4.00	358,844	358,844	2,500,000	3,217,688
2024	4.00	308,843	308,844	2,485,000	3,102,687
2025	4.25	259,144	259,144	2,470,000	2,988,288
2026	4.25	206,656	206,656	2,455,000	2,868,312
2027	4.25	154,487	154,488	2,440,000	2,748,975
2028	4.25	102,637	102,638	2,425,000	2,630,275
2029	4.25	51,106	51,106	2,405,000	2,507,212
		\$ 6,636,826	\$ 6,636,836	\$ 18,240,000	\$ 31,513,662

Avondale School District
Continuing Disclosure Undertaking
Property Tax Data
(Unaudited)
Year Ended June 30, 2008

	General Fund	Debt Service Funds	Capital Projects Sinking Fund	Total
2007-2008 adjusted levy	\$ 12,326,398	\$ 10,438,255	\$ 866,825	\$ 23,631,478
2007-2008 collections, write-offs, and adjustments	12,032,946	10,280,860	850,754	23,164,560
Balance receivable - June 30, 2008	<u>\$ 293,452</u>	<u>\$ 157,395</u>	<u>\$ 16,071</u>	<u>\$ 466,918</u>

	2007-2008	
	Homestead	Nonhomestead
Other Information		
Final taxable value of property assessed in the School District	<u>\$ 824,466,867</u>	<u>\$ 635,817,633</u>
Tax levy (mills):		
General Fund	1.2602	18.0000
Debt Service Funds	7.0000	7.0000
Capital Projects - Sinking Fund	<u>0.5936</u>	<u>0.5936</u>
Total tax levy (mills)	<u>8.8538</u>	<u>25.5936</u>
Official student enrollment (blended pupil count)		<u>3,873</u>

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2008

Avondale School District
County of Oakland, State of Michigan

\$	1,862,752	1988 School Building and Site Appreciation Bonds
	19,655,000	1999 Refunding Bonds
	4,670,000	2001 Refunding Bonds
	5,290,000	2002 Refunding Bonds
	14,895,000	2003 School Building and Site Bonds
	7,695,000	2005 Refunding Bonds
	9,735,000	2006 Refunding Bonds
	18,240,000	2007 Refunding Bonds

Enrollment

Ten-Year Enrollment History

<u>School Year</u>	<u>Enrollment</u>	<u>School Year</u>	<u>Enrollment</u>
2007-2008	3,867	2002-2003	3,893
2006-2007	3,902	2001-2002	3,838
2005-2006	3,816	2000-2001	3,791
2004-2005	3,844	1999-2000	3,661
2003-2004	3,856	1998-1999	3,654

2007-2008 Fall Count

Kindergarten	250	8th	302
1st	270	9th	327
2nd	277	10th	300
3rd	281	11th	284
4th	271	12th	227
5th	275	Alternative education	207
6th	298		
7th	298		
		Total	3,867

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2008

Labor Relations

<u>Class</u>	<u>Number</u>	<u>Affiliation</u>	<u>Contract Expires</u>
Teachers	232	Avondale Education Associations, MEA/NEA	6/30/2009 *
Bus drivers	22	AFSCME	6/30/2009 *
Administrators	11	Avondale Administors Association	6/30/2009
Secretaries	26	Avondale Association of Educational Secretaries, MEA/NEA	6/30/2009 *
Para-educators	58	Avondale Para-Educational Assoc., MEA/NEA	6/30/2009 *
Other	<u>84</u>	Not Affiliated	None
Total	433		

During the past ten years, the School District has not experienced a strike by any of its bargaining units.

* The School District currently has tentative 1 year agreements with the following bargaining units: AEA, AFSCME, AAES. & AVPE.

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2008

Retirement Plan

Contribution Period	Contribution Rate (Percent)
October 1, 2007 - September 30, 2008	16.72
October 1, 2006 - September 30, 2007	17.74
October 1, 2005 - September 30, 2006	16.34
October 1, 2004 - September 30, 2005	14.87
October 1, 2003 - September 30, 2004	12.99

Fiscal Year Ended June 30,	Contributions to MPERS
2008	\$ 3,989,975
2007	4,568,062
2006	4,199,131
2005	4,265,585
2004	4,066,173

History of Valuations (1)

Year	Homestead Taxable Value	Nonhomestead Taxable Value	Total Taxable Value	Adjusted CFT/IFT Valuation (2)	Total Valuation Subject to Tax
2008	\$ 932,540,140	\$ 515,455,270	\$ 1,447,995,410	\$ 4,743,660	\$ 1,452,739,070
2007	824,466,867	635,817,633	1,460,284,500	5,894,785	1,466,179,285
2006	767,345,754	575,218,861	1,342,564,615	969,410	1,343,534,025
2005	765,316,690	579,844,250	1,345,160,940	1,143,060	1,346,304,000
2004	710,838,813	560,746,770	1,271,585,583	3,886,930	1,275,472,513
2003	655,543,685	545,849,281	1,201,392,966	12,921,055	1,214,314,021
2002	623,477,587	518,514,382	1,141,991,969	12,710,335	1,154,702,304
2001	582,707,455	514,842,629	1,097,550,084	12,532,575	1,110,082,659

(1) Sources: Oakland County Equalization Department and Assessor's offices of respective municipalities.

(2) Represents 50% of the IFT taxable value for new facilities and 100% of the IFT taxable value for rehabilitated facilities.

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2008

Tax Levies and Collections

School Year	Operating Tax Levy	Current Collections to March 1		Received by School District to June 30	
		Amount	Percent	Amount	Percent
2007-2008	\$ 12,326,398	\$ 11,655,230	94.56	\$ 12,032,946	97.62
2006-2007	11,869,107	11,194,715	94.32	11,817,398	99.56
2005-2006	11,327,457	10,325,386	91.16	10,787,239	95.23
2004-2005	11,076,089	8,680,206	79.37	10,945,977	98.83
2003-2004	10,939,323	8,680,906	79.35	10,825,303	98.96

State Aid Payments

School Year	Blended Pupil Count	Foundation Allowance per Pupil	Total State Aid Payments
2007-2008	3,873	\$ 8,699	\$ 21,982,611
2006-2007	3,880	8,651	21,533,063
2005-2006	3,816	8,137	21,359,196
2004-2005	3,835	7,962	21,223,844
2003-2004	3,856	7,888	21,388,661

The 2003/2004 State Aid Pupil was reduced by \$74 due to State revenue shortfalls.

School District Tax Rates (per \$1,000 of Valuation)

Year	2008/09	2007/08	2006/07	2005/06	2004/05
Operating: (1)					
Voted Non-Homestead	18.0000	18.0000	18.0000	18.0000	18.0000
Voted Principal Residence	1.0998	1.2602	1.2503	1.3203	1.4092
Sinking Fund (2)	0.6000	0.5936	0.5936	0.5936	0.6000
Debt	7.0000	7.0000	7.0000	7.0000	7.0000
Total Principal Residence	8.6998	8.8538	8.8439	8.9139	9.0092
Total Non-Homestead	25.6000	25.5936	25.5936	25.5936	25.6000

(1) The School District levies 18 mills on non-homestead property, 1.0998 mills on principal residence property, debt and sinking fund millage on all property.

The School District operating millage expires with the December 2017 tax levy.

(2) The sinking fund millage reduced in the years 2005, 2006, and 2007 as a result of Article IX, Section 31 of the Michigan Constitution. The sinking fund millage expires with the December 2017 tax levy.

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2008

Largest Taxpayers (1)

Shown below are the 10 largest identifiable taxpayes in the School District based on their 2008 total valuation. The taxpayers listed below represent 9.64% of the School District's 2008 Taxable Valuation of \$1,447,995,410.

Taxpayer	Service or Product	Total Valuation Subject to Taxation
Comerica Ahoc LLC/Comerica Properties	Banking	\$ 34,548,940
Mak Real Estate Investment Company (2) (3)	Automobile manufacturing	21,023,000
First Industrial Realty Trust	Management company	13,883,620
Joel Nasanchuck	Industrial Buildings	13,242,920
Charrington Estates (3)	Industrial Buildings	12,883,100
American Axle	Manufacturing	9,228,850
American House	Property management	9,226,070
Steve Stolaruk	Developer	8,846,860
Tall Oaks of Auburn Hills (3)	Apartments	8,550,220
Webasto Sunroof	Industrial/Manufacturing	8,176,050
Total		<u>\$ 139,609,630</u>

(1) Sources: Respective municipalities.

(2) Owner of Volkswagen of America Inc. property. The operating manager of the Volkswagen building is Core Resources Inc.

(3) These taxpayers are appealing their personal property tax assessment.

Debt Statement

Date	Direct Debt	Amount
01/04/89	1988 School Building and Site Bonds (UTQ)	\$ 1,862,752
03/01/99	1999 Refunding Bonds (UTQ)	19,655,000
02/14/01	2001 Refunding Bonds (UTQ)	4,670,000
02/27/02	2002 Refunding Bonds (UTQ)	5,290,000
10/07/03	2003 School Building and Site Bonds (UTQ)	14,895,000
12/21/05	2005 Refunding Bonds (UTQ)	7,695,000
01/04/06	2006 Refunding Bonds (UTQ)	9,735,000
03/21/07	2007 Refunding Bonds (UTQ)	18,240,000
	Total direct debt	<u>\$ 82,042,752</u>

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2008

Legal Debt Margin

2008 State Equalized Valuation		\$ 1,597,811,925
Debt Limit (15% of 2008 State Equalized Valuation)		239,671,789
Debt outstanding at June 30, 2008	\$ 82,042,752	
Less bonds not subject to debt limit	<u>(82,042,752)</u>	
Total subject to debt limit		<u>-</u>
Additional debt that can be legally incurred		<u><u>\$ 239,671,789</u></u>

School Bond Loan Fund and the School Loan Revolving Fund

As of June 30, 2008, the School District had an outstanding balance, including interest, of \$13,626,289.

October 31, 2008

Management and the Board of Education
Avondale School District
Auburn Hills, Michigan

We have completed our audit of the financial statements of Avondale School District as of and for the year ended June 30, 2008 and have issued our report dated October 31, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the organization during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

Appendix I
Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated May 12, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected. The most sensitive accounting estimates and how they were derived by management are:

Estimates	Management's Basis
Capital assets with related accumulated depreciation	Estimates were used based on current acquisition costs and appraisal values. Useful lives are based on lives established by the District's capital asset policy.
Compensated absences accrual	Based on accumulated vacation days and salary and wage rates in effect.
Retirement severance accrual	The estimate is calculated based on language obtained within the union contracts and a five year historical average of actual severance payouts.

- Disclosures in the financial statements are neutral, consistent and clear.

Difficulties Encountered During the Audit

There were no difficulties encountered during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of Avondale School District as of and for the year ended June 30, 2008, we considered Avondale School District internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of the following matters that are opportunities for strengthening internal controls and improving operating efficiency. This letter does not affect our report date October 31, 2008, on the financial statements of Avondale School District. Our comments and recommendations regarding those matters are:

Audit Adjusting Journal Entries

In the current year we made several audit adjustments. Many of these adjustments were accrual entries and adjustments for taxes. We recommend that accrual adjustments be made and taxes reviewed and reconciled prior to providing the year end trial balance to the auditor. The target number of audit adjustments should be between three and five each year.

Vacation and Sick Day Policies

During the prior year audit we noted that the payout and the accumulation for any unused vacation and sick days is not following the corresponding bargaining unit master contract agreement. We recommended the District incorporate a policy that coincides with each bargaining unit contract. The District is in the process of updating their policy and will complete this once current contract negotiations are final. This will help prevent future discrepancies in what is required to be paid out.

Employee Contracts

Section 20.7 Professional Accounts of the administrator contract provides for \$1,500 per administrator for annual professional dues to professional, local, state and national educational organizations and trade publications and resources. In addition it provides with the superintendent's approval, an administrator may choose to spend the money for tuition and books for graduate work, workshops and conferences that grant SB CEU credits and technology and peripheral equipment capped to \$1,000 maximum. It is not clear what type of technology and peripheral equipment is acceptable under the contract. In order to prevent potential issues at a later date, provide for consistency and eliminate the need for an evaluation of whether an item is acceptable, we encourage the District to revise or eliminate this provision in the next contract.

Terminated Employees

Through discussions and inquiry it came to our attention that there is no policy for H.R. Department to notify the IT Department of terminated employees. This has caused instances where employees have logon access long after leaving the District. We recommend the H.R. Department notify the IT Department immediately following the termination of an employee. This will allow IT to terminate all access to the District's computer functions.

Status of other prior year comments

In addition we have reviewed the status of other comments and recommendations made in the prior year. The status of these comments is as follows:

<u>Comment</u>	Implemented/ Situation		
	<u>Corrected</u>	<u>Progress Made</u>	<u>Still Exists</u>
No credit card policy and missing supporting documentation for expenditures.	X		
No EFT policy and no formal review process over EFT's.	X		
Supporting documentation difficult to locate for bids and certain expenditures.	X		
No conflict of interest policy. Also, no annual signed conflict of interest form.	X		
Lack of segregation of duties between the processing of the payroll and ability to change master files related to payroll. We recommended the Finance Director review payroll reports for accuracy.	X		
Lack of oversight and supervisory knowledge of processes and procedures regarding employee benefits. We recommended Finance Director review employee benefit reports for accuracy.	X		